Good to Great to Gone

Leadership lessons from the Circuit City story. **BY TOM WULF**

Tom Wulf is a graduate of the University of Missouri School of Journalism who spent 24 years in various senior management positions with Circuit City and CarMax. He wrote, directed, and produced *A Tale of Two Cities: The Circuit City Story*, a feature-length documentary that premiered at the Virginia Film Festival in November 2010.

In early 2009, 34,000 American workers lost their jobs and one of retail's greatest stories of entrepreneurship abruptly came to an end. More than 250,000 people—families, suppliers, supporting businesses—were impacted directly by the closing of Circuit City Stores, Inc. The 60-year-old retailer, with a presence in every major U.S. city, seemed to just disappear.

The Circuit City story began in 1949, when young entrepreneur Sam Wurtzel opened a small TV store in Richmond, VA, after he learned that the South's first television station was going on the air. Over the next 20 years, Sam grew his company into a 100-store chain. His son, Alan, became CEO in 1972 and created the ground-breaking superstore format that evolved into Circuit City. When Alan retired from the board in 2000, Circuit City was a Fortune 500 company with more than 600 stores and 60,000 employees.

Jim Collins hailed Circuit City as a shining example of exceptional management practices in his 2001 best-seller, "Good to Great." Yet even then, cracks were beginning to show in the company's foundation.

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GOOD TO GREAT

For its first 50 years, Circuit City (originally called Wards TV) was a pioneer in the rapidly changing consumer electronics industry. Some examples of what made the company great:

A unique and powerful consumer offer: In 1975, Alan Wurtzel transformed the retail landscape in America by creating the first big-box superstore with a focus on Savings, Selection, Service, and Satisfaction. His "4 S's" were captured in policies and processes that were easily understood by the customer, and easily executed by his employees. Circuit City offered a low-price guarantee, a 30-day satisfaction guarantee, and a huge selection of products—which it delivered, installed, and repaired as necessary. A complaint was considered "an opportunity to make a friend." Recognizing that customers could help identify ways to improve its business, Circuit City created a survey department that called thousands of customers each year to learn about their shopping experiences.

The best-trained sales counselors in the industry: Every new Circuit City Sales Counselor attended a week of classroom training, practicing customer service and selling skills with a professional trainer. That was supplemented with a strong in-store mentor program and self-training. Sales managers received a continuous stream of lesson plans and facilitator guides from the home office to conduct weekly sales training. In addition, the commissioned pay structure rewarded Sales Counselors for learning as much as they could about new products. As a result, customers could expect a superior shopping experience with friendly, knowledgeable assistance.

Extraordinary career development opportunities: Circuit City grew from a dozen superstores to more than 600 in a period of 15 years. That explosive growth required an exponential increase in store, district, and regional managers—the majority of whom were promoted from within. Circuit City invested heavily to ensure its management selection, training, and retention strategies were the best in retail. Large bonuses were awarded to store managers for every new manager promoted from their location. In the late 1990s, more than 3,000 managers each year attended position-specific, week-long management training classes in Richmond.

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GREAT TO GONE

So how and why did Circuit City spiral into oblivion? To summarize its fatal flaws:

Overconfidence and complacency: Circuit City was the No. 1 performing stock on the NYSE for the decade of 1980 to 1990. With that track record, Circuit City became overconfident, taking its eye off its competitors. In 1990, a relatively small retailer named Best Buy began testing its new superstore format in the Midwest. Customers seemed to prefer the no-pressure/non-commissioned sales environment at Best Buy and its superior selection of computers, games, and music. Circuit City failed to respond, perhaps because leadership was distracted by its other business ventures, CarMax and DIVX. In 1998, Best Buy surpassed Circuit City in annual revenues and never looked back.

A poor decision-making process: Suddenly in the No. 2 spot, Circuit City began making wholesale changes to its business model to try to regain the lead, but didn't test those changes first. In 2000, for example, Circuit City exited the major appliance business to make room for more computer products, thinking it was a more profitable use of floor space. In reality, the company began sending loyal customers to its competitors. Circuit City easily could have tested the impact of abandoning major appliances in any subset of its stores first, and would have seen the unfortunate result. The company soon thereafter eliminated its world-class training programs; terminated 3,900 sales positions; sold off its bank; and outsourced its IT services—all without testing the potential impact of these decisions. Morale throughout the company suffered, the customer experience deteriorated, and customers sought better service elsewhere.

Favoring Wall Street stakeholders over customers and associates: As Circuit City's market share continued to decline, so did its stock price. At the goading of Wall Street, the company spent $920 million to buy back its stock—money it could have used to reinvest in its associates and outdated stores. The stock price briefly rose to $30 a share in 2006, then promptly dropped back down to $5 a share in 2007 when the company made its biggest public-relations blunder: firing 3,400 store associates because they were paid "above the market rate," then offering to hire them back for lower pay. When the financial crisis of 2008 finally hit, the company had run out of cash, and vendors didn't want to extend credit to Circuit City to buy merchandise. On November 10, 2008, the company declared bankruptcy.

Many businesses today face challenges similar to Circuit City's. With institutional memories fading due to aggressive record-retention/destruction policies, today's leaders would be wise to reflect on Circuit City's 60-year history of best practices and mistakes. Any executive considering cuts to its training and development programs should study Circuit City first. ■

A Tale of Two Cities: The Circuit City Story *is Tom Wulf's feature-length documentary. Alan Wurtzel and CarMax co-founder and CEO Austin Ligon are interviewed extensively, along with former Circuit City executives, associates, and vendors—many of whom lost life-long careers when the company closed in 2009. It's available now in a two-disc DVD set, with nearly two hours of additional features including in-depth commentaries on Circuit City's rise and fall. It can be purchased for $24.95 at http://circuitcitystory.com.*